

SINGAPORE

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators
(Millions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998	1/
<i>Income, Production and Employment:</i>				
Nominal GDP	94063.1	96631.1	87574.1	
Real GDP Growth (pct) 2/	6.9	7.8	1.0	
GDP by Sector:				
Agriculture	153.0	135.0	87.6	
Manufacturing	23520.7	23475.7	21893.5	
Services 3/	65586.2	69078.9	62406.1	
Government	8759.9	9065.5	9633.1	
Per Capita GDP (US\$)	30898.1	31136.2	27691.7	
Labor Force (000s)	1801.9	1876.0	1932.3	
Unemployment Rate (pct)	2.0	1.8	4.0	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply Growth (M2)	9.8	10.3	11.1	
Consumer Price Inflation (pct)	1.4	2.0	0.1	
Exchange Rate (SGD/US\$ annual average)	1.41	1.48	1.65	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB	125015.6	125414.2	114967.6	
Exports to U.S. CIF 4/	20340.4	20368.1	18881.2	
Total Imports CIF	131335.5	132841.2	106166.7	
Imports from U.S. FAS 4/	16685.5	17727.4	15493.7	
Trade Balance	-6319.9	-7427.0	8800.9	
Trade Balance with U.S.	3654.9	2640.7	3387.5	
External Public Debt	0	0	0	
Fiscal Surplus/GDP (pct)	4.2	3.4	-0.5	
Current Account Surplus/GDP (pct)	15.7	15.4	17.3	
Debt Service Payments/GDP (pct)	0	0	0	
Gold and Foreign Exchange Reserves	76419.0	80822.2	76119.8	

1998 Country Reports On Economic Policy and Trade Practices: Singapore

Aid from U.S.	0	0	0
Aid from Other Sources	0	0	0

1/ 1998 figures are projections based on most recent data available.

2/ Percentage changes calculated in local currency.

3/ Includes transport and communications, financial and business services, commerce, and other services sectors.

4/ Trade data was taken from the U.S. Commerce Department instead of Singaporean government sources.

1. General Policy Framework

A city-state with a population of 3.2 million astride one of the world's major shipping lanes, Singapore has long pursued economic policies that promote open trade and investment. (Note: Singapore's trade is about three times the size of its GDP, and transshipments make up over 40 percent of its merchandise exports. Foreign funds made up 70 percent of its total investment in manufacturing in 1997). These policies have allowed Singapore to overcome its land, labor and resource constraints, and develop into one of the world's most successful open trading and investment regimes. According to the World Bank, Singapore's per capita GNP of \$29,000 (in purchasing power parity terms) is the second highest, behind Luxembourg, in the world. Singapore actively promotes trade liberalization in the region through APEC and ASEAN; the APEC Secretariat is located in Singapore. It is a founding member of the World Trade Organization (WTO), and hosted the first WTO Ministerial in December of 1996.

Internally, Singapore has a free-market, pro-growth and competitive business environment characterized by transparency and a corruption-free regulatory framework. At the same time, it has a sizable public sector in the form of Government-Linked Companies (GLCs) that account for some 60 percent of GDP and are largely operated on commercial lines. Most have private equity involvement and are listed in the Stock Exchange of Singapore. Financial and business services and manufacturing are the two key sectors of the economy, responsible for 29 percent and 23 percent respectively of GDP. Over the past decade, Singapore's real GDP has grown at an average annual rate of 8.8 percent. Since the Asian economic crisis began in the second half of 1997, however, this growth has slowed significantly (especially in the commercial and manufacturing sectors) as a result of a sharp drop in regional demand. The problem of sluggish electronics demand from the U.S. and Europe has also compounded the effects of the crisis.

The government pursues conservative fiscal policies designed to encourage high levels of savings and investment. The government also invests heavily in the country's social and physical infrastructure, including education and transportation, and provides subsidies for public housing

and sometimes for the purchase of shares in GLCs when they are initially listed on the stock exchange. For most of the years since the 1970's -- and the past 10 consecutive years -- the government has had a budget surplus. In 1997, its fiscal surplus amounted to 3.4 percent of the country's GDP. However, the government has forecast a slight deficit of about \$1.2 billion in fiscal year 1998 (April 1998 to March 1999) due to pump-priming measures introduced to boost the economy slowed by the economic crisis.

The Central Provident Fund (CPF) compulsory savings program, which requires that 20 percent of an individual's income be placed in a tax-exempt account, with employer matching funds, is the basis for the national savings rate of nearly 50 percent of GDP. Employers' contributions to workers' CPF accounts are expected to drop to 10 percent beginning in early 1999. The move is part of a broad business cost-reduction policy package being implemented by the government. The package is primarily intended to restore Singapore's cost-competitiveness, which has been blunted by the sharp devaluation of other Asian currencies affected by the financial crisis. Individual CPF accounts may be used, in part, to finance housing purchases and investment in stocks and other instruments approved under the CPF investment scheme.

The Monetary Authority of Singapore (MAS), the country's central bank, engages in limited money-market operations to influence interest rates and ensure adequate liquidity in the banking system. The MAS' key objective is to maintain price stability, which it achieves largely through exchange rate policies. (Note: Inflation has averaged 2.1 percent annually over the last five years). There are virtually no controls on capital movements, thus limiting the scope for an independent monetary policy to either stimulate or restrain economic activity. The prime lending rate is currently at 6.0 percent, after peaking at about 7.8 percent at the beginning of 1998 amid the Asian financial crisis.

Singapore has become a major center for electronics, chemicals, oil refining and financial services, acting as a hub for the Southeast Asian market. Its sound economic policies and favorable investment climate have attracted about 1,300 U.S. companies to the city-state, with cumulative investments of \$17.5 billion in 1997. The U.S. is Singapore's largest trading partner, accounting for 19.4 percent of Singapore's total trade in 1997. According to U.S. Department of Commerce data, U.S. exports to Singapore amounted to \$17.7 billion in 1997. Singapore's exports to the U.S., on the other hand, reached \$20.4 billion in 1997.

2. Exchange Rate Policy

Singapore has no exchange rate controls. Exchange rates are determined freely by daily cross rates in the international foreign exchange markets. At the same time, the MAS uses currency swaps and direct open market operations to keep the Singapore Dollar within a desired range relative to a basket of currencies of the country's major trading partners. It seeks to maintain a strong currency to check inflation, given Singapore's extreme exposure to international

trade. The government also imposes certain restrictions on Singapore Dollar lending (SGD 5 million) to non-residents, or to local residents for use abroad, as a check against the speculative use of the currency.

The Singapore Dollar appreciated about 54 percent against the U.S. Dollar from 1986 to 1996. It has since depreciated, along with but to a lesser extent than other regional currencies, as a result of the Asian economic crisis. Since the crisis began mid-1997, the Singapore Dollar has depreciated by about 15 percent against the U.S. Dollar, falling back to the 1992 level of 1.63 to the U.S. Dollar by November 1998. This has had a major impact on U.S. exports to Singapore, which are expected to fall by over 13 percent in 1998. Meanwhile, the Singapore Dollar has appreciated sharply against the other regional currencies. This has drastically reduced the number of visitors from the region and dampened local commercial activity, but it has also minimized the inflationary impact of imports on Singapore's economy. Despite the current crisis, the government has announced that it will not seek to devalue the Singapore Dollar to maintain the economy's competitiveness, opting instead for measures to cut local business costs.

3. Structural Policies

Singapore's prudent economic policies have allowed for steady economic growth and the development of a reliable market, to the benefit of U.S. exporters. Singapore was the ninth largest customer for U.S. products in 1997 (eighth in 1996). Prices for products are mostly determined by the market. The government conducts its bids by open tender and encourages price competition throughout the economy.

The government has gradually reduced corporate income tax levels from 40 percent in 1986 to the current 26 percent. It aims to bring the corporate tax rate down further to 25 percent. Foreign firms are taxed at the same rate as local firms. There is no tax on capital gains. The government implemented a three percent value-added Goods and Services Tax (GST) in 1994 but reduced corporate (by one percentage point) and personal (by three percentage points) taxes. It also began providing tax rebates of up to SGD 700 on individual income tax in 1994. With these changes, it is estimated that three out of four Singaporeans end up not having to pay personal income taxes, thus increasing the disposable incomes available to the average Singaporean consumer. In 1996, given continued budget surpluses, the government also decided to make additional contributions to public housing and retirement schemes. At the same time, it raised stamp duties and imposed credit restrictions and a capital gains tax on short-term property sales to curb speculation in the real estate market.

Many of Singapore's public policy measures are tailored to attract foreign investments and ensure an environment conducive to their efficient business operation and profitability. Investment policies are open and transparent. Although the government seeks to develop more high-tech industries, it does not impose production standards, require purchases from local

sources, or specify a percentage of output for export.

4. Debt Management Policies

Singapore's external public debt was a negligible \$3.1 million at the end of 1994 and was retired completely in 1995. This was one of the key factors that enabled the country to weather the currency crisis which has engulfed the region since the second half of 1997. Singapore's annual budget surpluses and mandatory savings have also allowed the government wide latitude in devising off-budget measures to increase funds to support infrastructure, education, and other programs during the current economic slowdown.

Singapore does not receive financial assistance from foreign governments.

5. Significant Barriers to U.S. Exports

Singapore has one of the world's most liberal and open trade regimes. Approximately 96 percent of imports are not dutiable. Tariffs are primarily levied on cigarettes and alcohol for social reasons. Excise taxes are levied on petroleum products and motor vehicles primarily to restrict motor vehicle use. There are no intentional nontariff barriers to foreign goods. Import licenses are not required, customs procedures are minimal and highly efficient, the standards code is reasonable and the government actively encourages foreign investment. All major government procurements are by international tender. The government formally acceded to the WTO Government Procurement Agreement in September 1997.

Singapore maintains some market access restrictions in the services sector. No new banking licenses for local retail banking have been issued for more than two decades (to either foreign or domestic institutions) because the Monetary Authority considers Singapore over-banked. Foreign banks currently hold 22 of the 34 full (local retail) banking licenses. Full licensed foreign banks, however, are not allowed additional branches or ATM machines while local banks are allowed to expand. At the same time, the MAS continues to encourage the growth of the offshore banking industry in Singapore. It recently raised the Singapore Dollar lending limit for offshore banks (to Singapore-based firms) from SGD 100 to SGD 300 million.

There are also restrictions on the extent to which foreign stockbrokerage firms can trade in the equity securities markets for Singapore resident clients. Current Stock Exchange of Singapore (SES) regulations restrict foreign equity ownership of SES member companies to 49 percent, with the exception of two joint ventures approved prior to 1990 and the special category of "international members" which are permitted only to do wholesale trading for resident clients. No new licenses for direct (general) insurers are being issued, although reinsurance and captive insurance licenses are freely available. Foreign companies hold about three-quarters of the 59 direct insurance licenses. To achieve its goal of becoming an international financial center, the

government has announced its intention to further liberalize the financial services market to permit greater foreign participation in its banking and securities markets.

The telecommunications sector has been steadily liberalized since 1989, although the government still imposes limits on the number of telephone service providers in Singapore. Restrictions on the sale of telecommunication consumer goods and the provision of value-added network services (VANS) have been lifted. Singapore Telecom (SINGTEL) has been privatized and its regulatory functions assumed by the Telecommunications Authority of Singapore (TAS). Private investors now own up to 20 percent of shares in SINGTEL. In April 1996, Mobile One (a Singapore-foreign joint venture) became the second cellular phone service provider in Singapore, thus ending SINGTEL's monopoly in the mobile telephone services market. Three new paging service providers also entered the market at the same time. In April 1998, TAS announced that it has issued a license to a new joint venture basic telephone service provider ("Starhub") to begin operation in 2000, and will consider additional ones for 2002. At the same time, it issued a third cellular phone service license to a foreign joint venture company.

6. Export Subsidies Policies

Singapore does not subsidize exports although it does actively promote them. The government offers significant incentives to attract foreign investment, almost all of which is in export-oriented industries. It also offers tax incentives to exporters and reimburses firms for certain costs incurred in trade promotion, but it does not employ multiple exchange rates, preferential financing schemes, import cost-reduction measures or other trade-distorting policy tools.

7. Protection of U.S. Intellectual Property

Singapore is a member of the World Intellectual Property Organization (WIPO), and has ratified the Uruguay Round Accord including the TRIPs provisions. Singapore acceded to the Berne Convention in September 1998, but is not a party to the Universal Copyright Convention.

The government recognizes the importance of intellectual property rights, especially in connection with further investments -- both foreign and domestic -- in the technologically-advanced sectors of the economy. It has taken concrete measures to improve the protection of IPR over the years and, as a result, Singapore has one of the lowest rates of IPR piracy in Asia.

Singapore was placed on the Special 301 Watch List in 1997 and 1998 partly because its Copyright Law was not considered fully TRIPs consistent and police enforcement was considered inadequate. (Note: Singapore claimed "developing country" status under TRIPs, thus not binding itself to meet the 1 January 1996 deadline for a "developed" country). Other outstanding issues included the lack of rental rights for sound recordings and software, inadequate

protection against making bootleg copies of musical performances, the limited scope of copyright protection for cinematographic works and overly broad exceptions from copyright protection. Since then, Singapore has enacted amendments to its Copyright Law (January 1998) and submitted a new Trade Marks Bill (October 1998) with the intent of making both TRIPs-consistent. It imposed new licensing requirements and import controls in connection with a voluntary "code of conduct" for local optical disc manufacturing industry in April 1998. The government has also increased the number and scope of police-initiated raids, resulting in the arrest of local syndicate leaders and the seizure of nearly 750,000 illegal optical disc items in two major operations in August and October 1998.

Despite government efforts, IP owners associations have expressed dissatisfaction with the current level of IPR protection in Singapore. They cite the continued availability of pirated music CDs and CD ROMs, some of which they believe to have been smuggled into and some manufactured in Singapore. In late 1997, the Chief Justice quashed an 11th hour warrant used by the Business Software Alliance (BSA) and the police in a raid on a local CD manufacturer (which is currently suing BSA for damages). IP associations also complain about the inadequacy of the current "self-policing" system, and are pressing the government to create an independent IPR enforcement police force, apart from the current IPR warrant unit. They have called for the enactment of even stronger laws and regulations to protect IPR, including the mandatory use of Source Identification (SID) codes.

Recent estimates by the Business Software Alliance indicated software piracy losses in Singapore of \$56.6 million in 1997, about the same level as in 1996, but up from \$40.4 million in 1995 and \$37.3 million in 1994. Singapore's piracy rate was estimated to have declined to 56 percent in 1997, from 59 percent in 1996, compared to 53 percent in 1995 and 61 percent in 1994. In the area of music CDs, the International Federation of the Phonographic Industry estimated Singapore's CD piracy level to have risen sharply from 12 percent in 1994 to nearly 30 percent in early 1997.

8. Worker Rights

a. The Right of Association: Article 14 of the Singapore's Constitution gives all citizens the right to form associations, including trade unions. Parliament may, however, based on security, public order, or morality grounds impose restrictions. The right of association is delimited by the Societies Act, and labor and education laws and regulations. In practice, communist labor unions are not permitted. Singapore's labor force numbered 1.88 million in 1997, of which 260,000 or 14 percent of the labor force is organized into 81 trade unions.

b. The Right to Organize and Bargain Collectively: Over ninety percent of union members in 72 of the 81 trade unions are affiliated with an umbrella organization, the National Trades Union Congress (NTUC), which has a symbiotic relationship with the government. The

NTUC's leadership is made up mainly of Members of Parliament belonging to the ruling People's Action Party (PAP). The Secretary-General of the NTUC is also an elected Minister Without Portfolio in the Prime Minister's office.

The Trades Union Act authorizes the formation of unions with broad rights. Collective bargaining is a normal part of labor-management relations in Singapore, particularly in the manufacturing sector. Collective bargaining agreements are renewed every two to three years, although wage increases are negotiated annually.

c. Prohibition of Forced or Compulsory Labor: Under sections of Singapore's Destitute Persons Act, any indigent person may be required to reside in a welfare home and engage in suitable work.

d. Minimum Age for Employment of Children: The government enforces the Employment Act, which prohibits the employment of children under 12 years and restricts children under 16 from certain categories of work.

e. Acceptable Conditions of Work: The Singapore labor market offers relatively high wage rates and working conditions consistent with international standards. However, Singapore has no minimum wage or unemployment compensation. The economic downturn and the concomitant rise in the unemployment rate, from 1.8 percent in 1997 to the projected rates of four and six percent in 1998 and 1999 respectively, has eased the problems of labor shortage and high wage escalation in Singapore. In response, the government has increased funds to retrain workers and reduce structural unemployment. The government enforces comprehensive occupational safety and health laws. Enforcement procedures, coupled with the promotion of educational and training programs, have reduced the frequency of job-related accidents by one-third over the past decade. The average severity of occupational accidents (defined as the number of industrial man-days lost per million man-hours worked) has, however, risen by 12 percent and 32 percent in 1996 and 1997, to 353 and 466 respectively.

f. Rights in Sectors with U.S. Investment: U.S. firms have substantial investments in several industries, notably petroleum, chemicals and related products, electronic and electronics equipment, transportation equipment, and other manufacturing areas. Labor conditions in these sectors are the same as in other sectors of the economy. Many employers resort to hiring foreign workers to ease shortages in unskilled and highly-skilled jobs. (Note: Since last year, the government has actively promoted policies to attract foreign talent to work in Singapore. For example, companies are now allowed to claim double tax deduction on approved hiring and relocation expenses associated with the hiring of talent from abroad). The government controls the number of foreign workers through immigration regulation and through levies on firms hiring them. Foreign workers, numbering 460,000 or 24 percent of the total work force, generally face no legal discrimination in Singapore.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad
on an Historical Cost Basis -- 1997**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	3,329
Total Manufacturing	7,851
Food & Kindred Products	(1)
Chemicals & Allied Products	299
Primary & Fabricated Metals	149
Industrial Machinery and Equipment	2,449
Electric & Electronic Equipment	4,521
Transportation Equipment	53
Other Manufacturing	379
Wholesale Trade	1,874
Banking	694
Finance/Insurance/Real Estate	3,154
Services	528
Other Industries	85
TOTAL ALL INDUSTRIES	17, 514

(1) Less than \$500,000 (+/-).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.